

Aquinnah  
Barnstable  
Bourne  
Brewster  
Chatham  
Chilmark  
Dennis  
Eastham  
Edgartown  
Falmouth  
Harwich  
Mashpee  
Oak Bluffs  
Orleans  
Provincetown  
Sandwich  
Tisbury  
Truro  
Wellfleet  
West Tisbury  
Yarmouth  
Barnstable County  
Dukes County

**CAPE LIGHT COMPACT  
PILOT PROJECT**

**REPORT TO DOER & DTE**

**ACKNOWLEDGEMENTS**

This report has been prepared by the Cape Light Compact with the cooperation of Mirant, TSE, and NSTAR Electric. The Compact wishes to thank the Massachusetts Division of Energy Resources for its assistance in the formulation and implementation of this project. The Compact also wishes to thank all of the individuals from Mirant, TSE, and NSTAR Electric who have worked to make the Pilot Project a success.

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Appendix C: Education Plan; Notification Package; Education Materials

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## **1.0 INTRODUCTION**

### **1.1 Purpose of the Report**

This report has been prepared and filed with the Massachusetts Division of Energy Resources (“DOER”) and the Department of Telecommunications and Energy (the “Department” or “DTE”) in compliance with the conditions of the Department’s orders in DTE 01-63. The purpose of the report is to provide information on utilizing municipal aggregation to transfer and serve a large customer group with competitive power supply. It contains information and data on the Cape Light Compact Pilot Project, which currently provides competitive power supply to more than 48,000 customers. The report contains a description and discussion of:

- ?? The Cape Light Compact and the Pilot Project
- ?? Mirant Corporation and the Electric Supply Agreement
- ?? Project Implementation
- ?? Notification and Education of Customers
- ?? Customer Service, Common Consumer Questions and Answers, and Consumer Reaction to the Pilot
- ?? Customer Enrollment
- ?? Project Operation including Program Problems and
- ?? Project Data and Costs
- ?? Summary of Experience and Lessons Learned
- ?? Effect that Implementation of the Pilot has had on the Competitive Market

### **1.2 Cape Light Compact and the Pilot Project**

The Cape Light Compact (the “Compact”) was formed in 1998 through an intergovernmental agreement of twenty one towns and two counties and is engaged in competitive power supply, energy efficiency and consumer advocacy. The Compact created a municipal aggregation program in compliance with G.L. c. 164, § 134, and its Aggregation Plan was approved by the Department on August 10, 2000 (DTE 00-47). Initiation of the Plan and delivery of power supply was delayed due to below-market prices for Standard Offer customers. As part of its aggregation efforts and in response to the Department’s competitive market initiative (DTE 01-54) on August 15, 2001, the Compact proposed a Pilot Project to bring competitive power supply and savings to all classes of customers receiving Default Service from NSTAR Electric. The program began with enrollment of 39,374 customers on May 1, 2002. As of December 31, 2002 the program was serving 47,827 customers.

The primary objective of the Pilot Project was to provide relief for customers on Default Service paying high market prices. The timing of the plan was driven by discussions with competitive power suppliers which indicated an opportunity to acquire power supply at a price that would provide savings to Default Service customers. The Compact plan offered a structure which would utilize municipal aggregation to offer a competitive supply option and savings to these customers. The Pilot was also seen as a stepping-stone to a competitive supply option for all other customers in the Compact’s member municipalities.

The Compact also viewed the Pilot Project as an opportunity to provide an important general benefit for advancing a competitive market in the Commonwealth, and an opportunity to provide highly valuable market experience for the transfer of and service to a large group of customers. In addition to the value for its own aggregation program, the Compact's Pilot was viewed as an opportunity to generate data and information vital to: 1) other public or private entities in the Commonwealth interested in aggregation of small customers; 2) utilities in the Commonwealth anticipating customer transfer through aggregation; 3) suppliers interested in serving large aggregated groups, and; 4) state regulators and policy-makers.

The Pilot Project was developed in consultation with the Division of Energy Resources. It was approved by the Department on October 23, 2002, and upon the Compact's Motion for Reconsideration several conditions of approval were amended on November 20, 2001. Following a competitive retail market process and customer transfer, operation of the Pilot and competitive supply from the Mirant Corporation began on May 1, 2002.

### **1.3 The Electric Supply Agreement**

Mirant Corporation ("Mirant") became the competitive supplier for the project under an Electric Supply Agreement ("ESA") executed with the Compact on March 13, 2002. Mirant is a leading-global competitive energy company. Mirant delivers value by integrating an extensive portfolio of power and natural gas assets with market and risk management expertise. Mirant has facilities in North America, the Caribbean, Europe and Asia, and operates one of the world's largest energy commodity trading organizations from its headquarters in Atlanta. Mirant owns and operates power plants and is a wholesale and certified retail supplier in Massachusetts.

The ESA between Mirant and the Compact was reviewed by the Department as part of its approval process for the Pilot Project. The ESA is consistent with the Pilot Project and provides a competitive power supply option for all customers who were on Default Service as of March 6, 2002, as well as new customers who have subsequently moved into Compact communities and would otherwise be placed on NSTAR Default Service.

The ESA includes fixed prices for a twenty-month period (May 2001 through December 31, 2003) with an option for a one year extension with the mutual agreement of the Compact and Mirant. Consistent with the conditions of DTE 01-63, Mirant's price must be lower than that of the Default Service fixed price. The Mirant price during the period of May 1-December 31, 2002 was 4.898 cents/kilowatt hour for all customers. The price for 2003 is 4.798 cents/kilowatt hour.

The comparative Mirant and NSTAR fixed prices for 2002 and 2003 are as follows:

### **Cape Light Compact/Mirant**

<u>2002 Price</u>	<u>May 1-December 31</u>
Residential	4.898 cents/kilowatt hour
Commercial	4.898
Industrial	4.898

### **NSTAR Electric Default Service**

<u>May 1-June 30</u>	<u>July 1-December 31</u>
6.289 cents	5.520 cents
6.410-6.468	5.520-5.792
6.410-6.468	5.520-5.792

<u>2003 Price</u>	<u>January 1-December 31</u>	<u>January 1-June 30</u>	<u>July 1-December 31</u>
Residential	4.798	4.940	Not yet available
Commercial	4.798	5.132	Not yet available
Industrial	4.798	4.986	Not yet available

The terms of the ESA ensure customer choice. All customers enrolled are mailed written notification concerning the Pilot Project and are offered an opportunity to “opt-out” to NSTAR Default Service, or to another competitive supplier. Consumers may also opt-out at any other time by calling NSTAR or Mirant and requesting to be removed from enrollment. There is no exit fee or penalty. However, consumers who enroll and later leave the program cannot reenter for a period of twelve months.

Other important features of the ESA include: security for projected consumer savings; indemnification of the Compact and member towns against third party claims; consumer protections concerning direct marketing and advertising; and supplier coverage of costs of initial regulatory approvals, customer notification, and education activities up to certain limits. (For a description of the key provisions of the ESA, see Appendix A.)

## **1.4 Key Findings and Conclusions**

1. The Pilot Project demonstrates that large groups of customers formed under municipal aggregation can be successfully enrolled and served by competitive supply.
2. The Pilot shows that customers are generally satisfied with the delivery of lower cost power supply from a competitive supplier under the program.
3. Successful program implementation and operation relies on scheduled communication and close coordination among the local distribution company (“LDC”), competitive supplier and aggregator.
4. The DOER plays an important role in problem-solving for issues related to implementing competitive power supply.



5. While customer education is improving, a general lack of understanding or awareness of the competitive market hampers market activity. Customer education needs to be reinforced periodically and additional statewide education is needed prior to full market transition.
6. The ability of parties to identify and reconcile electronic data differences on a timely basis is vital.
7. The ability to include all types of customers—standard payment, electronic billing, budget billing, statement billing is important for program operation and customer satisfaction.
8. If not addressed in a timely manner, problems with data management and billing systems have the potential to raise costs, create customer confusion, and undermine operations of competitive power supply.
9. Municipal aggregation based on local and state approvals provides cost efficiencies for transition of customers to competitive supply; thus making competitive service to small commercial and residential customers feasible.
10. Additional cost reduction for customer transition and other transactions (such as use of internet rather than value-added network services) should be implemented for potential cost reductions and efficiency in competitive retail supply. This is especially important for competitive supply to small commercial and residential customers.
11. The Pilot has had a positive effect on the competitive retail market.

## **2.0 PROJECT IMPLEMENTATION**

Implementation of the Pilot Project was undertaken by a team consisting of NSTAR Electric staff and technical consultants, Mirant staff and technical consultants, TSE (Mirant's customer service vendor), ESG (Mirant's information technology vendor) and Cape Light Compact staff and technical consultant (Ridley & Associates). The Cape Light Compact Governing Board and its power supply committee also participated in this process. The Compact's technical consultant established a schedule and process with the team that led to a successful customer transition during the period of March 13 to May 1, 2002. The schedule addressed NSTAR's concerns regarding timing and other logistical issues. These concerns included the ability to extract the needed addresses on time, the number of customers that could be handled in each file transfer, and the time needed for programming and testing of the system for enrollment exchanges. (See Implementation Schedule attached at Appendix B.)

The team met weekly via conference calls during the month of March, twice weekly during April, and weekly in May and June of 2002 on a telephone line hosted by NSTAR. Calls were scheduled on an “as needed” basis beginning in July. In addition, there were numerous individual calls between the information technology specialists for Mirant, TSE, ESG, and NSTAR for the purposes of identifying problems, conducting system testing, and coordinating activities in preparation for notification of customers and electronic data transfer for enrollment.

There were four interrelated activities undertaken to meet the deadlines in the implementation schedule: 1) preparation of data for notification and enrollment of customers; 2) preparation and integration of the electronic data transfer between parties; 3) preparation and mailing of notification information and publication of educational materials; 4) establishment of a customer service center and preparation of materials and training of service representatives. At the time, no utility, supplier, or customer group in the Commonwealth had previously sought to transfer such a large number of customers to competitive supply. The deadlines on the implementation schedule were successfully met with the cooperation of all parties: Mirant, NSTAR, ESG, TSE and the Compact.

On March 15, 2002, NSTAR provided the Compact with a disk containing the data for 43,710 eligible customers (44,882 meters) extracted from the NSTAR data system on March 6. The Compact’s technical consultant reviewed the files for missing address data and data that would interfere with preparation of a mailing list, corrected data, and prepared a mailing list from address fields.

The Compact had secured a mail house to provide services for printing and mailing of a notification letter to eligible customers. The mail drop took place on March 26.

Simultaneous with this activity, Mirant engaged TSE to provide customer services. The Compact technical consultant drafted a script for customer service representatives, and TSE trained service representatives for operations to begin on March 27. (See discussion of Customer Services in Section 2.2 below.)

The 30 day opt-out period ended on April 25, and data for eligible customers who had not opted out was transferred to Mirant on April 26. Additional opt-outs that arrived late were also transferred to Mirant for removal from participation. (See discussion on Customer Notification in Section 2.1.1 below.)

Mirant transferred the enrollment data to NSTAR under the established protocols, and competitive supply was initiated for participating customers on May 1, 2002. (See discussion on Enrollment in Section 2.3 below.)

## 2.1 Notification and Education of Customers

In advance of enrollment and consistent with its Pilot Project, the Compact conducted an educational effort for customers that consisted of two parts: 1) notification of consumers with a direct mail package, and; 2) general education through the media and other vehicles to provide a broad backdrop for the mailings. The Compact executed this plan over a 40 day schedule. (See Education Plan at Appendix C.)

### 2.1.1 Notification

The Compact mailed notices to eligible default service customers via bulk mail to the billing address of each customer of record. The notification envelope was marked as containing information related to the Cape Light Compact supply for Default Service customers. The notification package contained a letter describing the program and providing key information, a “frequently asked questions” sheet, and a Business Reply Mail card for the customer of record to sign and return at no postage cost if he/she chose to opt-out. (See mail package at Appendix C.)

The notification letter: a) informed customers that they had the right to opt-out; b) prominently stated all charges to be made and offered a comparison of price and primary terms of the competitive supply and Default Service; c) explained how to opt-out and how to access Default Service; d) provided notice that there would be no exit charges associated with the opt-out; e) provided information that other competitive supply alternatives might be available at other terms and prices, and provided the telephone number and websites for the Division of Energy Resources and the DTE at which information on such alternative supply might be available.

As part of its preparation, the notification letter was reviewed by DOER, the Attorney General’s Office, and the Department’s Consumer Division as well as Mirant and NSTAR. Barnstable County, on behalf of the Compact, contracted with VNA Interpreter Services to receive all information request calls from Portuguese and Spanish-speaking customers concerning the notification letter. The referral reference and interpreter telephone number was noted at the top of the notification letter.

The mail house carried out the process of printing and mailing pursuant to a Non-Disclosure Agreement required by NSTAR for all parties handling the customer addresses. The mail house utilized its Business Reply Mail (“BRM”) license for the return opt-out card (eliminating this step for the Compact which did not have a BRM) and received and electronically recorded the opt-out card returns via a bar code imprinted on each card as part of the individual customer address/account number. The mail house also retained and provided to the Compact all returned opt-out cards for record-keeping.

April 25, 2002, marked the deadline for the opt-out return card. The mail house had previously transmitted the early returns and on April 25 sent an electronic transfer of the opt-out returns to the Compact. The Compact continued to receive electronic data from the mail house and accepted opt-out cards beyond the deadline.

Summary of Pilot Notification Status as of April 30, 2002

Total Mail Addresses:	43,719 customers (44,882 meters)
Addresses Rejected:	101
Undeliverables:	627
Opt-Out Responses:	446
Total Enrollment:	42,545 customers (43,679 meters)
Problem Address Rate: (address rejections and undeliverables)	1.66 percent (728/43,719)
Opt-Out Response Rate: (following extraction of address rejections and undeliverables)	1 percent (446/42,991)

The Compact extracted the opt-out customers from the electronic data file and prepared and transferred information on the customers to be enrolled to Mirant on April 26, 2002. Additional late opt-outs were sent to Mirant for removal from the enrollment list as they were received (less than 25 accounts).

On August 29, 2002, a second opt-out notification was sent to consumers who entered NSTAR Default Service as new customers between the period of March 6 (when the original enrollment list was compiled by NSTAR) and July 18<sup>th</sup> when NSTAR began automatic enrollment of new customers in the lower cost Mirant/Compact supply. Updates were made to the notification letter to reflect changed cost comparisons (elimination of May and June prices). Following a 30 day opt-out period (September 30) and processing of the opt-out responses, these customers were enrolled at the end of their billing cycles starting on October 14, 2002.

The response to this mailing for interim customers as of October 14<sup>th</sup> was as follows:

Total Addresses:	7,925
Undeliverables:	405
Opt-Out Responses	115
Total Enrollments	7,405
Undeliverable rate:	5.1% 405/7,925
Opt out rate:	1.45% 115/7,925

### 2.1.2 General Education

As noted above, a general education plan was formulated and implemented. Prior to implementation, the plan was reviewed by the DOER, the Attorney General's Office and the Department's consumer division as well as NSTAR and Mirant. The purpose of the plan was to make consumers aware of the Pilot Project and the fact that notification letters were being sent to eligible default service customers. The general educational effort included a media plan, electronic information sources (1-800 service center telephone number and website) and public presentations. (See copies of press release, flyer, and legal ads at Appendix D.)

#### 2.1.2.1.1 Media

The Compact mailed press releases to media outlets and held two kick-off press conferences on March 19th to introduce the Pilot and the supplier. One press conference was held in Boston at the State House, in which elected state officials and the Division of Energy Resources participated. The second was in Barnstable at the offices of the Barnstable County Commissioners. The Compact also met with the editorial board of *The Cape Cod Times* and Community Newspapers. (See resulting articles at Appendix D.)

#### 2.1.2.2 Electronic Information Sources

In addition, the Compact made information on the Pilot available through electronic sources on Mirant's website and the Compact website. These sources refer readers to the 1-800 number for detailed program information. Notices concerning competitive power supply through the Pilot Project were also posted on local cable television access channels.

#### 2.1.2.3 Public Presentations

Cape Light Compact Governing Board members made presentations to town Boards of Selectmen to explain the new Pilot Project. A presentation was also made to a Restructuring Roundtable meeting in Boston.

#### 2.1.2.4 Billing Notice

NSTAR Electric included a statement in the message line of the last default service bill prior to customer transition. The statement noted the next bill would reflect charges from the new Compact supplier and provided the Call Center 1-800 number for customers to call for additional information. NSTAR mistakenly ran the billing note before the last cycle of bills, and corrected this error before the note had been sent to the entire cycle of customers. (See Section 5.2 for discussion of problem and resolution)

### 2.2 Customer Service

Consistent with the Pilot Project plan, the Compact worked closely with Mirant and NSTAR to assure that there would be coordinated coverage for customer service. The central part of this service was Mirant's call-in center, run by TSE. NSTAR, the Compact, and Mirant each received call referrals from TSE and made call referrals depending upon the nature of the caller's question or problem. Copies of customer notification materials were shared at the time of mailing with NSTAR and TSE to prepare customer representatives for caller questions and referrals.

### 2.2.1 Supplier Customer Call-In Center

Mirant contracted with TSE for customer services that included the call-in center. TSE adjusted its hours and live phone coverage to respond to the pattern of customer calls. On March 27, 2002, calls which had not been anticipated to begin until the following day were picked up by answering machine. Full customer service coverage began on March 28. During the period from March 28 to March 31 (the first weekend the mailing arrived), the call-in center was staffed from 8 a.m. to 5 p.m. Given the pattern of customer calls, during the period of April 1 to April 18 the time was extended from 7 a.m. to 9 p.m. and again revised to 8 a.m. to 7 p.m. for the period of April 19 through September 30, 2002. On October 1, the evening hours were cut back to 5 p.m. From October 1<sup>st</sup> through the present, during hours that the customer service number is not staffed, or if all customer service representatives are on the phone, voice mail picks up the calls. Calls are returned immediately during business hours, unless the customer message requests a return call at a particular time. After hours messages are returned on the following business day.

TSE records call data on a daily basis with weekly reports circulated to Mirant and the Compact. The reports show an anticipated increase in calls at the time of customer notification mailings. For the nine month period of March 27 through December 31, 2002, the reports show the following totals:

Calls received:	4,895
Calls answered:	3,833 (78.30%)
Voice messages:	860 (17.57%)
Calls abandoned (incl. hang-up)	202 ( 4.13%)
Calls referred to NSTAR:	1,356 (27.70%)
Negative customer attitude:	69 ( 1.40%)
Positive customer attitude:	1,795 (36.70%)

The notation on positive or negative caller attitude is a subjective judgment of the customer service representative and not all callers receive a rating. It is interesting to note that the 1.4% negative customer attitude is very similar to the mail opt-out rate shown in Section 2.1.1. (For additional information, see copies of TSE weekly reports at Appendix E.)

### 2.2.2 Additional Customer Contact By Team Members

In addition to TSE, the Compact, Mirant and NSTAR also received selected customer calls to answer specific questions or to help resolve specific problems. As noted above, 27.7 percent of calls were referred to NSTAR to address NSTAR-related issues such as billing balance.

The Compact also took a limited number of calls from customers referred by TSE, (or returned calls to customers as requested by TSE), as well as customer calls that were directed to the Compact's staff and technical consultant by Cape Light Compact Governing Board members, or town officials, NSTAR, or Mirant. These calls concerned confusion regarding the Pilot Project including: 1) customers who did not know what "Default Service" was; 2) customers who did not understand competitive electric supply; 3) customers wanting additional information on the Compact or Mirant; 4) customers with particular billing questions. (See Section 2.2.4 for common questions.)

The Compact directly received an estimated 20 calls. The Compact's interpreter services vendor also took direct calls or calls that were referred (325 calls) and rendered 66 written word translations. Most of these calls to the Compact or its interpreter services occurred at the outset of the program in response to the initial notification mailing. The Compact has received approximately two calls per month since that time.

### 2.2.3 Customer Contact Outside of the Pilot Project Team

Telephone contact numbers and e-mail addresses for DOER, the Department's Consumer Division and the Attorney General's Office were also listed in customer notification information. The Compact did an informal check with these parties during the period of customer notification and high-call volume and found that they received few, if any, calls, and that there were no special problems requiring remedy. In addition, a few consumer calls concerning the Pilot Project were received by the Consumer Assistance Council in Hyannis which had participated in educational efforts for customers receiving Default Service. The Compact had made the Consumer Assistance Council aware of the program and its implementation. These calls were either addressed directly by the Consumer Assistance Council or referred to the Compact.

### 2.2.4 Reactions to the Pilot and Common Consumer Questions

There has been a very positive response to the Pilot from participating consumers, the local Consumer Assistance Council, and local and state elected officials. *The Cape Cod Times* also published an editorial in support of the program. Consumers who had faced high and changing prices from Default Service were pleased that they had fixed prices and savings from competitive supply. The Compact estimates that a limited number of consumers did not understand the competitive market, and therefore preferred to remain on NSTAR Default Service supply. Other consumers who encountered problems with statement billing, budget billing or electronic billing also experienced a certain amount of frustration. The numbers of these customers are reflected in the opt-out statistics (approximately 1.5 percent), and the weekly calls sheets compiled by TSE and noted above (1.4% negative calls).

Typical questions to the call center reflected consumer's lack of experience or general education on the competitive electric market, concerns about billing and supply and reliability, or questions concerning Mirant or the Cape Light Compact or how competitive energy supply works. The most common question noted by TSE, NSTAR, Mirant and the Compact was why the program and related cost savings had not been in place sooner. This was noted at the outset of the program and prior to automatic enrollment.

The call center has noted:

- ?? A common positive comment we hear is that Mirant is a cheaper supplier than the other companies in the area. During an initial period of billing difficulties some customers were willing to stay with Mirant for the lower rates than choose Default Service for convenience options such as bank draft or budget billing.
- ?? They comment how a default customer that has been paying a higher rate than a Standard customer has for so long is glad to get a more competitive rate.
- ?? Among negative comments the biggest at this time [winter] has to do with the increase in their bill. Due to the extremely cold weather, electric bills have jumped. Customers call in to complain how their bill has never been as high and ask to cancel. Some people understand after you explain that the increase in their bill was due to the increase in usage and they decide not to cancel. Others don't believe that is the reason.
- ?? Another common question or complaint has to do with the set-up of their bill, due to the supplier costs being identified on a second page. There has been a lot of confusion about reading the bill and what to pay. They see the two totals and think there is an extra (or additional) charge from us that they have never had before. After you explain about a supplier charge and delivery charges and that you have always had the two, then they seem to understand better. Some still seem to cancel for this reason.
- ?? The last complaint that we still hear is that they feel they were erroneously switched. We explain the whole process and give them a choice. With Mirant being lower cost, they are not as upset.
- ?? The rest of the calls are pretty much directed to NSTAR. They may want to know their balance, or request a disconnect because they are moving.

## **2.3 Customer Enrollment**

The Compact, Mirant and NSTAR worked cooperatively to develop procedures for the enrollment of existing and new Default Service customers.

### **2.3.1 Existing Default Service Customers**

For customers who were receiving Default Service from NSTAR prior to March 6, 2002, the Compact removed the customers who chose to opt-out from the eligible customer list and transferred the list to Mirant. Mirant then prepared the customers in groups by billing date and transmitted the enrollment groups to NSTAR. Customers were enrolled by NSTAR at the close of their billing cycle. (There are 21 cycles for the Cape and Vineyard during the course of one month.) Customers who submitted opt-out cards after the 30 day opt-out period were removed from the eligible customer list if they had not already been enrolled. Customers who submitted opt-out cards after enrollment were transmitted and entered as “drops” in NSTAR’s data system.



Four customers who submitted opt-out cards subsequently requested cancellation of the opt-out and enrollment in the program. Upon written notification of their request, these customers were enrolled.

The Compact, Mirant and NSTAR took special care to ensure that customers who were receiving Default Service, but had enrollment with another competitive supplier pending, were not included in enrollment. NSTAR accomplished this by inserting a blocking code for such customers prior to enrolling the first group of customers.

The Compact, Mirant and NSTAR also worked to identify and assist any customers who had been erroneously placed on Default Service and should have been receiving Standard Offer. This occurred through training of customer service staff on this problem, and referrals concerning particular customers.

Customers sent for enrollment 5/1/02:	42,545
Customers enrolled by 5/31/02:	39,373
Enrollments rejected:	3,172 (primarily due to error code 177—invalid customer Status--accounts closed since data compiled 3/6/02; also 20 accounts blocked due to pending enrollment with another competitive supplier)
	7.45% enrollment rejection rate

### 2.3.2 New Customers

Customers who began Default Service between the period of March 6 and July 18, 2002 were included in an interim “catch-up” group while NSTAR prepared its system for automatic enrollment of customers in the lower cost Compact/Mirant Pilot Project, rather than automatic enrollment in NSTAR Default Service. These interim “catch-up” customers were enrolled following a notification and opt-out process as described above in section 2.1.1.

Customers sent for enrollment 10/14/02 :	7,405
Customers enrolled:	6,147
Enrollments rejected:	1,258 (primarily due to error code 177—Invalid Customer Status—most assumed to be customers closing account after summer)
	17% enrollment rejection rate

After July 18, 2002, new customers who would have otherwise been placed automatically on Default Service were enrolled in the lower-cost Compact/Mirant supply and were mailed a subsequent opt-out notification by the Compact and Mirant.

### **3.0 PROJECT OPERATIONS**

#### **3.1 Customer Participation**

Customer participation in the Pilot has increased from 39,374 customers on May 31, 2002 to 47,827 customers as of December 31, 2002. During this period, these customers used 227,633,464.8 kilowatt hours with savings estimated at \$1,738,958. (See more detailed Customer Data in Section 4.1) As noted above, consistent with the process of municipal aggregation, new customers are currently enrolled by NSTAR in the lower-cost Pilot Project rather than being automatically placed on Default Service. Participation remains voluntary, and customers may leave the Pilot Project at any time, consistent with the close of their monthly billing cycle. Requests must be received two days prior to the close of a customer's billing cycle for the request to be effective that month. Residential customers may close out their participation at any point during the month. Commercial and industrial customers are closed out at the end of their monthly billing cycle. There is no exit fee. Unenrollment can be initiated with a telephone call to either the NSTAR or Mirant (TSE) customer service centers.

#### **3.2 Data System Problems and Resolutions**

Generally, the integration of data systems among NSTAR, Mirant, ESG (Mirant EDI vendor) and TSE (Mirant customer service vendor) has worked well. As anticipated at the outset of the Pilot, various data problems have emerged from time to time. For situations in which the data problem concerns an individual customer, there is an individual solution effected by NSTAR, Mirant, ESG, and TSE. For problems that prove to be *data system* problems, resolution can require a more focused effort to identify and resolve the problem. This has been evident in customer billing problems.

##### **3.2.1 Customer Billing**

Participation and billing problems arose with regard to customers who received statement billing, electronic billing, budget billing, and tax exempt bills. Compact, Mirant and NSTAR representatives met on August 15, 2002 to discuss problems encountered by customers in these billing categories and resolution of those problems. Below is a summary of the issues discussed at the meeting.

##### **3.2.1.1 Electronic Billing Customers**

Customers who are billed electronically—also known as “direct pay” customers—required data system changes to allow competitive supply. These changes were tested and completed by NSTAR in September 2002. Customers were also contacted with a letter from NSTAR making them aware that they could now participate in the NSTAR “direct pay” program with a competitive supplier.

### 3.2.1.2 Budget Billing Customers

Customers who made payments to NSTAR according to budget plans faced barriers to participation in competitive supply because budget plans were not offered to customers receiving competitive supply. Instead, NSTAR established a “levelized billing” procedure that included budget billing for all but the monthly energy supply charge.

### 3.2.1.3 Statement Billing Customers

Customers with multiple meters who wished to receive a single bill found they could not participate in the Pilot Program because the NSTAR data system could only provide a single bill for each account. This data system problem was estimated to require more than 1,000 hours of programmer time to resolve and NSTAR would not undertake this effort due to budget and personnel constraints. An alternative for a “pass through” bill requirement for these customers was not feasible for Mirant due to personnel and cost constraints. Thus statement billing customers could not participate in the program unless they agreed to receive an individual bill for each account. This problem was estimated by NSTAR to affect 50 customers with more than 10 accounts and approximately 250 customers with 2 to 10 accounts.

### 3.2.1.4 Tax-Exempt Customers

Errors in the data system sometimes create an incorrect code for customers concerning their tax-exemption status. These problems have to be addressed on a case-by-case basis and can lead to added costs for the supplier and NSTAR.

### 3.2.1.5 Two-Page Bill Format

There has been customer confusion expressed over the two-page billing format. While the total amount to pay appears on the first page, an additional page notes the Mirant charge for energy supply. Some customers believe this is an additional charge which they never had before (having received only a single page bill in the past). This issue is usually resolved through a discussion with customer service representative.

## 3.2.2 Payment in Arrears, Non-Payment, and Collections

Data problems, whether individual or system problems, can create delays in payment which in addition to backroom costs for problem resolution, result in program costs for customer arrearage and non-payment. Confusion over data and resulting billing and payment questions can also cause consternation for customers. The extent of customer arrearage and non-payment has remained within Mirant’s expectations. Customer collections undertaken by Mirant through telephone calls and Mirant’s letters have also proven responsive. (See section 4.2.5 on arrearage/bad debt and collection cost information.)

## 4.0 PROJECT DATA AND COSTS

### 4.1 Project Data

The primary project data details customer participation, kWh usage, and savings by class and month.

#### Participating Customers

	<b>Residential</b>	<b>C/I</b>	<b>Street Lights</b>	<b>Total</b>
May	33591	5752	23	39373
June	32863	5476	24	38372
July	32755	5411	25	38200
August	33414	5358	27	38808
September	34526	5407	28	39970
October	38107	5876	43	44035
November	40882	6319	49	47259
December	41381	6385	52	47827

#### Kilowatt Hour Usage

	<b>Residential</b>	<b>C/I</b>	<b>Street Lights</b>	<b>Total</b>
May	7523615.2	4264027.8	1467	11789110.0
June	1676245.6	8841489.6	2173	25606114.2
July	21631234.4	10922196.2	2499	32555929.6
August	25542243.8	13208898.0	2987	38754128.8
September	16452228.2	9077024.0	3211	25532463.2
October	17647679.4	8558717.0	3445	26209841.4
November	21617235.6	9772349.2	6943	31396527.8
December	25951899.0	9829926.8	7524	<u>35789349.8</u>
				227,633,464.8

#### Customer Savings (2002\$)

	<b>Residential</b>	<b>C/I</b>	<b>Street Lights</b>	<b>Total</b>
May	\$104,653	\$ 64,472	\$ 22	\$ 169,148
June	233,166	133,683	33	366,882
July	134,546	71,431	16	205,994
August	158,873	86,386	20	245,278
September	102,333	59,364	21	161,718
October	109,769	55,974	23	165,765
November	134,459	63,911	45	198,416
December	161,421	64,288	49	<u>225,758</u>
				\$1,738,958

## 4.2 Project Costs

Project Costs include expenses for implementation, notification and education, customer service, and on-going program operations through December 31 2002. The costs of the program for project approval, notification expenses, half of the education expenses, customer care center costs and nearly all operational costs (resulting in a total of \$643,875.40) have been covered by Mirant. The Compact has covered partial notification and education expenses, and project coordination and monitoring during the operational period at a cost of \$14,717.00. The Compact also expended \$29,380 to prepare and negotiate the ESA. Additionally, the Compact has contributed significant in-kind activity that has not been quantified. This includes work with towns and consumers, as well as state officials, that has provided the basis for the program.

### 4.2.1 Program Implementation:

Program implementation costs for setting up the infrastructure for the program include expenses for planning, personnel, computer services and testing, and other consulting assistance. These costs have amounted to \$129,922.70.

### 4.2.2 Notification Costs:

Notification costs include expenses for preparing the notification mail package and sending it to customers, as well as costs for associated educational efforts:

Mail House:	\$23,486.40
Mirant Mail:	\$5,569.15
VNA Interpreter Services:	\$11,376.15
Consulting services:	\$23,104.76
Education:	\$10,788.97
Total:	\$74,325.43

(51,644 customers sent mailing)      \$1.44/each customer mailed

### 4.2.3 Customer Care Center:

Customer care center services include setting up and revising data base management, tracking of billing and payment information and customer calls: These costs have amounted to \$184,535.91.

### 4.2.4 Operational Expenses

Operational expenses include billing and oversight for the program.

Compact staff, expenses and Mirant Billing, IT and Back Office:	\$255,091.36
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This total operational expense is for 430,914 bills rendered.

#### 4.2.5 Arrearage/Bad Debt

Any payment more than 90 days overdue is included in the “bad debt” category until payment is made. The data reflects the status of billings as of December 31, 2002. Actual collections in early 2003 have substantially reduced the amount of arrearage reflected below.

Number of customers with payment past 90 days: (out of 47,827 customers: 5.38%)	2,573 customers
Total amount of payments past 90 days: (out of \$11,149,487.00 in billings: 2.42%)	\$270,324.60

### 5.0 SUMMARY OF EXPERIENCE AND LESSONS LEARNED

#### 5.1 Implementation

The cooperative effort by NSTAR, Mirant and the Compact met the concerns and challenges to extract the needed addresses on time, manage the number of customers handled in the enrollment file transfer, and undertake the programming and testing of the system for enrollment exchanges. Regularly scheduled meetings and communication, and an integrated schedule on which there was agreement and commitment of sufficient personnel, formed the basis for meeting the challenges of a very tight six week schedule, starting with execution of the ESA on March 13, 2002, and continuing enrollment of customers on May 1, 2002. No other utility in New England had previously attempted enrollment of such a large group of customers in competitive supply. The Pilot demonstrated that such a transition could be accomplished on a focused timeframe.

#### 5.2 Notification and Education

The notification and education process for consumers has been generally successful, as set forth below.

##### 5.2.1 Notification Package

For the notification package, it was important to have approval on the content and language by all concerned parties including Mirant, NSTAR, the DTE Consumer Division, DOER, and the Attorney General’s office. From a consumer perspective, the package worked well, but there were a few specific problems:

- 1) The package envelope noted “Important Information for Default Service Customers” which upset and confused some customers who did not know what Default Service was, or that they were being served under Default Service prices. The solution was to amend the message to drop the term “Default Service.”

2) The Interpreter Services note at the top of the notification letter for Spanish and Portuguese-speaking customers also created a problem because English-speaking customers called this local number rather than 1-800 numbers listed or in addition to the 1-800 numbers which resulted in increased costs. The solution was to have only the foreign language reference to the telephone number at the top of the letter and to include the interpreter services number at the close of the letter stating in English that it was for Spanish and Portuguese-speaking callers only.

### 5.2.2 General Education

For general education, the challenge to explain the Pilot Project and municipal aggregation was increased by the lack of public awareness concerning electric industry restructuring and competitive retail electric supply. A number of Default Service customers who had become frustrated by the higher energy price they received were motivated to become more informed prior to the Pilot, but many had no idea they received different pricing than other customers receiving Standard Offer service. The concerted and on-going efforts made by the Compact in the Cape and Martha's Vineyard region have contributed to media and consumer education, but the general lack of awareness remains a problem. Prior to the completion of the retail market transition in February 2005, a substantial statewide effort to educate consumers is needed.

### 5.2.3 Last Bill Message

As noted previously in section 2.1.2.2, there was a scheduling error for the "last bill" message concerning customer transition. Prior to enrollment in May, NSTAR inserted the billing note for Default Service customers one month early. Also, the message was not clear that customers who opted-out would not be included in the transition. NSTAR pulled this premature note from default customer billings halfway through the billing cycle and worked with the Compact on a revised customer transition note that was sent in the subsequent billing cycle.

At the Compact's request, NSTAR revised the "last bill" message to Default Service customers. (See below.) The revision sought to minimize confusion and unnecessary calls around two problems: 1) the first sentence was changed so that customers did not start thinking at the outset that they had been switched even if they sent in their opt-out card, and stated that this is lower priced supply they are being switched to; 2) many of the questions to TSE concerning the last message were about NSTAR billing, so the call information was made specific to questions about the Compact/Mirant supply.

A comparison of the two "last bill" messages is set forth below:

#### NSTAR TEXT FOR LAST BILL:

Beginning with your next bill, DEFAULT SERVICE CUSTOMERS on the Cape and Martha's Vineyard will no longer receive energy supply from NSTAR Electric. Your electricity supply will now be served by the Cape Light Compact's supplier, "Mirant." NSTAR will continue to deliver that supply to you. Your next NSTAR bill will reflect these changes unless you have already elected to remain on Default Service. Questions? Call 1-800-364-2153.

**COMPACT REVISION:**

Beginning with your next bill, DEFAULT SERVICE CUSTOMERS on the Cape and Martha's Vineyard have the option to receive lower-priced energy supply from the Cape Light Compact's supplier, "Mirant." NSTAR will continue to deliver that supply to you. Your next NSTAR bill will reflect a change to Mirant, unless you have already elected to remain on Default Service. Questions about the Compact/Mirant supply? Call 1-800-364-2153.

**5.3 Customer Service**

Customer service experience and coordination between the parties has been positive, but there have been a few specific problems.

At the outset, the mail drop on March 26, 2002, resulted in telephone calls starting on March 27<sup>th</sup>, prior to full preparation of the call-center (scheduled to begin with customer service representatives on March 28<sup>th</sup>). A voice mail message was set up for customers calling on March 27<sup>th</sup>, of the 87 callers, 53 left voice messages. These messages were responded to on March 28<sup>th</sup>.

During the month of July, 2002, there were incorrect referrals from NSTAR for customers with questions about the Pilot Project. Customers were mistakenly referred by NSTAR to the Compact's 800 number for its energy efficiency program. The Compact contacted NSTAR customer service and the customer service managers were informed of the correct 1-800 referral number.

**5.4 Customer Enrollment**

Customer enrollment at the outset of the program proceeded smoothly due to the advance preparation and testing of the system. The automatic enrollment process similarly went smoothly once it was programmed, tested, and put in place on July 18, 2002. This had taken longer than anticipated to initiate, but the results were generally positive.

However, a problem that resulted from this automatic enrollment process was occasional customer enrollment without full customer information being sent to Mirant and TSE. Without full customer information, TSE and Mirant could not install the customers on their data systems. This led at first to efforts at individual resolutions and increased "back-room" program costs. As the number of customers in this situation increased (ultimately to a total of 346) discussions began over remedies needed in the NSTAR data system. Although there was a delay in addressing the problem, the problem has now been resolved.

**5.5 Project Operations**

There are a few key lessons from operational experience that may help to facilitate customer participation and reduce program costs in the future.



### 5.5.1 Communications and Coordination

The success of the implementation process on a tight timeframe demonstrated the capability of the parties to undertake a coordinated effort and resolve problems in a timely manner. Frequent communications were critical to this process. Although problem-solving efforts for billing system difficulties were successful for Budget Billing and Electronic Billing customers, these problems could have been resolved sooner if there had been a continuation of scheduled conference calls over that time period. Currently, periodic scheduled conference calls have been reinstituted among the parties in addition to “as-needed” calls and meetings to address problems. Resolution of the Statement Billing problem remains outstanding at this time due to NSTAR personnel and budget constraints, and further discussion is needed on this matter. Other operational and data system issues that affect large groups of competitively supplied customers might also be assisted by a future reconciliation of data between NSTAR and Mirant.

### 5.5.2 Reconciliation of Data between Supplier and NSTAR

Under the present data system there is a unidirectional transmission of data from NSTAR to Mirant for customer information, usage, and payment. There is no way to check information upstream to identify and help to reconcile differences or questions in data for large groups of customers. Each problem must be identified individually, and when enough individual problems emerge, potential system problems are examined. Identification of problems and resolution might be undertaken on a more timely basis if there were bi-directional capability to reconcile databases.

## 5.6 Project Costs

The ability to provide customers, especially small commercial and residential customers, with competitive retail power supply on a cost-effective basis can be enhanced by reduction of duplicative functions and costs, and utilization of least-cost processes. Competitive suppliers often note that the high cost of customer acquisition and the cost of subsequent electronic transactions for small customers diminishes competitive supplier interest in serving small commercial and residential customers. Municipalities interested in municipal aggregation cite cost barriers related to market and regulatory processes. Streamlined processes and full incorporation of costs into price can help to overcome these barriers.

### 5.6.1 Implementation

Due to the significant expense involved in start-up of a program, it is important to note that the longer the program operates, the greater the opportunity to amortize start-up costs and reduce per customer expenses. Utility pricing of Default Service should be acquired, published, and structured to allow comparisons for longer term aggregation programs (i.e. pricing disclosed a minimum of four months in advance of aggregation program implementation and for a term of not less than two years). There are other specific cost-saving improvements that can be considered as well.

### 5.6.1.1 ESA and Regulatory Review

The two-step process for approval of the Pilot plan, and subsequent approval of the ESA, was important in avoiding added costs of delay, or loss of time-sensitive pricing. Negotiated electric prices can be protected and regulatory costs reduced with a streamlined two-step approval process for municipal aggregators. Such a process would approve the required “Aggregation Plan” in advance through an expedited review, and an Electric Supply Agreement in a subsequent review. Delays that result from reviewing an Aggregation Plan and ESA together can create uncertainties that increased bid prices (or cause the loss of the ESA as prices move). Expedited review of standard elements of the contract (i.e. price) also helps to reduce costs. The Compact already had an Aggregation Plan approved by the DTE, which helped to facilitate formulation and approval of the Pilot Project.

### 5.6.1.2 Preparation and Customer Transition

Acquisition of customers through advertising and individual sign-up has been noted by industry analysts to cost as much as \$330 per customer. Other suppliers have stated costs of \$150 to \$200 for acquisition and enrollment of each customer.<sup>1</sup> The use of municipal aggregation, based on approval of each community, state review of the program, and the ability of each consumer to opt-out, significantly reduces such costs for customer transition and facilitates inclusion of small commercial and residential customers in competitive supply. The Pilot Project demonstrated this with a customer acquisition and transition cost of \$4.88 per customer.<sup>2</sup> This per customer cost will decline as costs are amortized with increased customer participation over the project duration.

## 5.6.2 Notification

### 5.6.2.1 Bulk Mailing for Notification

Bulk mailing was acquired through a competitive bidding process for the initial mailing, and Mirant provided services for the subsequent mailing. The cost of the Compact’s initial mailing was reduced by Mirant’s agreement to pay up to \$50,000 in notification process expenses. Mirant covered all costs of the subsequent mailing (\$5,569.15).

### 5.6.2.2 Interpreter Services

Barnstable County contracted for interpreter services for Spanish and Portuguese speaking Customers. English-speaking customer calls to the interpreter services increased notification costs in the April notification. This was remedied by altering the translation message, as noted in Section 5.2.1 above.

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<sup>1</sup> Costs of \$330/customer have been cited for the Enron opt-in aggregation program in Palm Springs, California: (Paul Fenn; Local.org; 1999); Other suppliers (Shell Energy, NewEnergy, and Exelon) stated acquisition costs in conversations with the Compact technical consultant, December 2000. Enron figures are for all classes of customers; other supplier figures are for larger commercial and industrial customers. Mass marketing techniques in a vibrant market may be able to reduce these costs for small commercial and residential customers to lower levels.

<sup>2</sup> Based on the total of Compact costs of \$29,380 for ESA preparation and negotiation; Mirant costs of \$129,922.70 for program implementation, and \$74,325.43 for customer notification and education over a base of 47,827 customers.

### 5.6.2.3 General Education

Mirant's agreement to pay half of general education costs (with a limit of \$10,000) assisted with the Compact's costs of general education.

### 5.6.3 Customer Care Services

Customer care service expenses can be reduced by close coordination between the utility and the supplier on customer communications and referral issues that contribute to customer confusion and additional calls. Sharing customer messages in advance of publication can enhance customer services and minimize associated costs.

### 5.6.4 Operations

#### 5.6.4.1 Back Room Costs

Back room costs for electronic data management and billing contribute to a major portion of operational expenses. It is important to have close coordination between the supplier and the utility to readily identify and resolve data differences in order to avoid additional costs.

#### 5.6.4.2 EDI Data System Charges

Value-added network ("VAN") charges, such as exchange of electronic customer usage and payment data, add substantial costs to a large aggregation program. It is estimated that the Pilot Project-related VAN charges total 20 cents per meter per month. Simple Internet transfer of information could reduce those costs by half. For the Pilot Project (47,000 metered customers) this would reduce EDI charges by \$4,700 per month. If the full Compact aggregation were considered (195,000 metered customers), this would mean a reduction of program costs by approximately \$10,000 per month.

## **6.0 EFFECT PILOT HAS HAD ON COMPETITIVE MARKET**

### **6.1 Program Recognition and Reputation**

At the state level, the DOER's competitive market statistics show that for December 2002, there were a total of 2,547,169 electric customers statewide. DOER notes 87,783 electric customers were receiving competitive supply. Of these competitively-supplied customers, the Pilot Project's 47,827 customers accounted for more than 54.5 percent. Within this total of competitively supplied customers, DOER showed 56,894 residential customers, of which 41,381 were served by the Compact (72.7 percent). Similarly, DOER showed competitive supply for 29,304 commercial and industrial customers, of which 6,385 were served by the Pilot Project (21.8 percent).

Nationally, the Pilot Project was recognized by the National Center for Appropriate Technology as a leading example of how competitive power supply could be delivered to small consumers. This made Massachusetts one of only two states (the other being Ohio) noted for providing competitive supply savings to small business and residential customers.<sup>3</sup>

At the regional level, the Massachusetts Energy Consumers Alliance, Inc. recognized the Compact's work on behalf of consumers and presented the Compact with an award.

Most critically, the value of the program has been recognized by the actual participants—consumers, NSTAR Electric, Mirant, and the Compact. The capabilities gained through the establishment and operation of the program have enhanced each party's ability to participate in and facilitate a competitive retail market.

## **6.2 NSTAR Capability**

NSTAR has advanced its capability to facilitate competitive supply through its involvement in the Pilot Project. Advances were achieved in electronic transactions which will benefit other consumer aggregations, as well as experience in pulling enrollment data, adjusting billing systems, and educating customer service representatives. This experience helps to build systems and personnel resources to facilitate and manage large groups of customers receiving competitive supply.

## **6.3 Mirant Competitive Supply Capability**

Mirant has advanced its capability to undertake similar competitive supply transactions for other consumer aggregations. Similar to NSTAR, Mirant has built systems, vendor relationships, and trained personnel to manage large groups of customers receiving competitive supply. Mirant has also gained valuable business experience concerning the costs and benefits of serving large customer groups.

## **6.4 Compact Aggregation Capability**

The Cape Light Compact has advanced its capability to acquire supply, and to assist with customer transition and monitoring services for a full aggregation program to include those among the 195,000 metered electric customers in the region who may wish to participate when standard offer and market prices cross over and further competitive supply becomes viable.

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<sup>3</sup> See "The Transition to Retail Competition in Energy Markets: How Have Residential Consumers Fared?"; Barbara Alexander and Matthew Brown; National Center for Appropriate Technology, September 2002.

## **6.5 Consumer Access to Market**

For eligible consumers (those who would have received higher cost Default Service), the Pilot Project has provided competitive market access, savings, and experience. The Pilot Project has also left an open door for customers who desired another competitive supplier, or for customers to choose Default Service. Unlike nearly all competitive retail supply contracts currently in place, customers participating in the Pilot Project have no exit fee, are not blocked from switching, and can opt-out at any time. Depending on market conditions in the future, municipal aggregators may find that suppliers will request exit fees as a provision in supply proposals.

## **6.6 Competitive Suppliers**

Other competitive retail suppliers have had an open opportunity to market to consumers in the region. There have been no barriers placed before such suppliers. From a supplier perspective, the positive customer experience with the Pilot Project should help to educate consumers and enhance the potential for their participation in competitive supply in the Cape and Martha's Vineyard region. The Compact's experience has also supported local interest for further competitive supply for Standard Offer customers in the future, with supply perhaps coming from one or more of a number of competitive suppliers. For the broader region, the experience and advances made by NSTAR should help to facilitate customer transition and service for competitive suppliers throughout the NSTAR service territory. For particular customers and competitive suppliers interested in the region, as noted in Section 2.3.1, the Compact, Mirant, and NSTAR took special care at the outset of project implementation to block enrollment of customers who had pending agreements with other competitive suppliers. Subsequently, any customer participating in the program who desired to switch to another competitive supplier, or to Default Service, could opt-out upon request. Further, the process of municipal aggregation, undertaken with local approval in the interests of consumers, has demonstrated the value of reducing transition and transaction costs so that small commercial and residential customers can be served with competitive supply. The success of the Pilot Project should encourage state policy makers to review methods to facilitate municipal aggregation, and to encourage other communities in the state to initiate similar programs and activities which would further enhance opportunities for competitive suppliers.